PART II

PREPARING THE COST COMPARISON ESTIMATES

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Chapter 1—Implementation Instructions

A. General

1. Part II provides generic and streamlined cost comparison guidance to comply with the provisions of the FAIR Act and Circular A–76. This includes guidance for developing in-house costs based upon the Government's Most Efficient Organization (MEO) and other adjustments to the contract and inter-service support agreement (ISSA) price. It also sets out the principles for development of cost-based performance standards or other measures that are comparable to those used by commercial sources. Appendices 6 and 7 provide sector-specific cost comparison guidance.

2. The guidance provided by this Part relies on the managerial cost accounting and performance standards established in support of the CFO Act, GPRA and Federal Accounting Standards. Cost and performance information developed for competitions subject to the Circular and this Supplement should be drawn from the data base established by these standards and adjusted as appropriate. This guidance is to be used by Federal agencies to ensure that cost comparisons are fair and reasonable.

3. A cost comparison between in-house, contract or ISSA performance seems straight-forward, but, in fact, is complicated by the very different ways Government agencies and commercial sources account for cost. For example, the Government buys capital equipment and may recognize the entire expense when payment is made. The commercial sector may borrow funds and recognize the expense of capital equipment as it is used. All costs incurred by commercial sources are ultimately charged to a ''customer,'' whereas agency costs may be met by several different appropriations accounts, revolving funds or mixes thereof. Insurance is a real cost of doing business in the commercial sector, while the Federal Government is a ''self-insured entity.'' Taxes are paid by most commercial sources and received and used by the public sector. Assets are purchased from owners equity in the commercial sector, yet they are purchased by the taxpayer in the public sector. The Government may incur employee retained pay or save pay as a way of mitigating the adverse impacts of a management decision, without assessing these costs to the activity. The commercial sector passes these types of costs on to the customer. These and other differences necessitate cost comparison requirements that equalize the systems to reflect the total alternative costs to the Government and the taxpayer. Such costs may or may not be fully reflected by agency accounts.

4. The procedures set forth in this Part recognize the absence of a uniform accounting system throughout the Federal Government and are intended to establish a practical level of consistency to assure that all substantive factors are considered.

B. Organization

1. Part II is divided into five chapters.

2. Chapter 2 provides the generic principles and procedures for developing the cost of in-house performance to the Government. The principles and procedures of Chapter 2 represent a competitive cost comparison.

3. Chapter 3 provides the generic principles and procedures for developing the cost of contract or ISSA performance to the Government. The principles and procedures of Chapter 3 represent a competitive cost comparison.

4. Chapter 4 provides procedures for computing the minimum conversion differential, calculating the financial advantages to the Government associated with Government or contract performance and the cost comparison decision.

5. Chapter 5 provides an alternative cost comparison methodology for activities involving 65 in-house FTE or less at the time of study announcement. While the principles and procedures of Chapter 5 represent a competitive cost comparison, this non-mandatory alternative approach is provided to minimize the administrative costs associated with cost comparisons, ensure timely completion and preserve the equity and cost comparability requirements of this Supplement.

Chapter 2—Developing the Cost of Government Performance

A. General

1. *Overview.—*

a. This Chapter provides the policies and procedures that will be used when the Government determines that a cost comparison between in-house (agency), contract or interservice support agreement (ISSA) performance is warranted.

b. The procedures of Part I of this Supplement regarding cost comparison waivers, the certification of the Government's MEO, review by an Independent Review Officer and the Administrative Appeals process apply. Cost comparisons will be based upon the same scope of work and performance requirements contained in the Performance Work Statement (PWS).

c. Cost comparisons are conducted in accordance with this guidance, modified to the extent applicable by Chapter 5 of this Part. The procedures differ for the conversion of work from contract or ISSA to in-house performance, however, in four basic areas: (1) the identification of *new* or *increased* in-house costs, (2) one-time conversion costs and (3) the calculation of the minimum cost differential, and (4) certain other adjustments that may be necessary if an ISSA is being considered.

2. *Standard Cost Factors.—*Standard cost factors are to be used as prescribed in this Part. Agencies are encouraged to collect agency or sector-specific data to update and improve upon the standard cost factors provided herein. The official in paragraph 9.a. of the Circular, or designee, may develop alternative agency-wide or sector-specific standard cost factors, including overhead, for approval by OMB.

3. *Common Costs.—*Costs that would be the same for in-house, contract or ISSA performance, without organizational, workload, or responsibility changes need not be computed or entered into the cost comparison. Common costs or ''wash'' items will be identified in the Management Plan for review.

4. *Retained and Save Pay.—*Retained and save pay are not included in the in-house cost estimates. Agencies are encouraged to seek their Most Efficient Organization (MEO), without penalty of historical inefficiencies. Agencies cost only the ''*positions*'' in the MEO.

5. *Cost of Conducting a Cost Comparison.—*The cost of conducting a cost comparison is not added to the in-house cost estimate or contract price. This is an administrative expense associated with good management practices and is irrelevant to the cost of performance.

6. *Proration of Performance Periods.—*Cost comparisons are conducted using not less than three years of proposal/cost data, submitted by the Government and commercial sources. In-house cost estimates and contract prices will reflect the same multi-year basis. If permitted by statute and the Federal Acquisition Regulations (FAR), performance periods for cost comparisons in excess of five years may be approved by the official in paragraph 9.a. of the Circular, or designee. Multi-year procurement or pre-priced renewal options provide advantages such as continuity of operations, the possibility of lower prices, and reduced turbulence and disruption. However, in extending the performance period, the official in paragraph 9.a. of the Circular, or designee, must certify that no known cost comparison advantage be conveyed to the in-house, contract or ISSA bid by the extension.

7. *In-House Costs.—*

a. The competitive cost of in-house performance includes all significant performance costs associated with the activity that are not common to the in-house, contract or ISSA options. The in-house cost estimate is based upon the following:

—Personnel Costs
—Materials and Supply Costs
—Other Specifically Attributable Costs
  —Depreciation
  —Cost of Capital
  —Rent
  —Maintenance and Repair
  —Utilities
  —Insurance
  —Travel
  —MEO Subcontracts
  —Other Costs
—Overhead Costs
—Additional Costs

b. In addition to costs generally associated with the in-house performance of an activity, including personnel, material and overhead costs, a conversion from contract or ISSA performance to in-house performance may require increased costs for facilities and equipment. The cost of all capital assets not currently provided to the contractor will be computed using the depreciation and cost of capital methods provided in this Chapter. Increases for the rent, maintenance and repair, utilities, travel and their associated overhead is also calculated. Government costs that would be the same for in-house, contract or ISSA operation, should be identified, but need not be computed.

8. *Minimum Cost Differentials.*—

a. This Supplement establishes a minimum threshold of undefined costs that must be exceeded prior to a conversion to or from in-house, contract or ISSA performance. The minimum differential is also established to ensure that the Government will not undertake a conversion for marginal estimated savings.

b. An activity will not be converted to or from in-house, contract or ISSA performance, on the basis of a cost comparison, unless the minimum cost differential is met. The minimum cost differential is the lesser of 10 percent of in-house personnel-related costs (Line 1) or, $10 million over the performance period. Factors such as decreased productivity, and other costs of disruption that cannot be easily quantified at the time of the cost comparison are included in this differential.

c. Whenever a cost comparison involves a mix of existing in-house, contract, new or expanded requirements, or assumes full or partial conversions to in-house performance, each portion is addressed individually and the total minimum differential is calculated accordingly.

9. *Rounding Rule.*—Round all line entries on the Cost Comparison Form (CCF) to the nearest dollar.

10. *Inflation.*—

a. Agencies will use the annual inflation guidance developed annually for the President's Budget and provided by OMB for use in cost comparisons conducted in accordance with this Supplement.

b. In preparing cost estimates, all known or anticipated increases incurred before the end of the first performance period; e.g., salary increases for Government employees, are included in each cost element—prorated as appropriate. For subsequent periods, the cost of anticipated changes in the scope of work, as described in the PWS, is determined. Inflation factors for pay and non-pay categories will then be applied to the estimated year-end costs for the first year of performance. There are some exceptions to the inflation adjustments as discussed later, such as personnel costs subject to economic price adjustment clauses of the Service Contract Act, Davis-Bacon Act, depreciation costs for facilities and equipment, and the cost of minor items.

c. To calculate out-year costs: (1) determine the cost elements affected by inflation during each performance period. For each period, ensure that the number of months in the period and the changes in the PWS for each period have been considered; (2) multiply each cost element for each performance period by the respective salary/wage or material cost inflation factors to the applicable performance period, and (3) once adjusted for inflation, calculate the total cost of that CCF Line item.

11. *Other ISSA Adjustments.*—

a. It is not the intent of this Supplement to require an ISSA offeror to significantly alter its methods of operation to provide unique or site specific services. While such services may meet agency missions and may legitimately be included in the solicitation, additional adjustments to the ISSA cost estimate may be necessary to reflect differences in in-house and contractor bids.

b. Agencies should identify the minor differences between the requirements of the solicitation (contractor bid) and the ISSA cost estimate. The agency determines if any item or combination of items will impact the agency's ability to perform. If the agency's ability to perform would be adversely impacted, the ISSA cost estimates may be rejected as non-responsive. If the differences will have minimal agency performance implications, and/or can continue to be performed by agency personnel, the ISSA cost estimates will be adjusted for purposes of comparison with the contractor and MEO offers, based upon the comparable costs contained in the agency's MEO.

c. A complete record of all adjustments to the contractor and ISSA cost estimates should be maintained and made available to the public upon request.

B. Personnel—Line 1

1. This Line includes the cost of all direct in-house labor and supervision necessary to accomplish the requirements specified in the PWS. Included are salaries, wages, fringe benefits, and other entitlements, such as uniform allowances and overtime. To determine Line 1 Personnel costs, identify the in-house staffing estimate and proper wage/grade classifications as described in the Management Plan.

2. In-house cost estimates that assume a mix of in-house labor and existing contract support should include the cost of labor for the Government's administration and in-house inspection of those support contracts on Line 1. Table 3–1, of this Part, may be used to estimate contract administration costs, based upon the estimated number of contract employees involved. The cost of the support contracts themselves, including the cost of related Government furnished equipment and facilities not provided to

the contractor under this cost comparison, should be entered on Line 3 Other Specifically Attributable costs.

3. Line 1 includes all competitive costs that could change if performance is converted to or from in-house, contract or ISSA. Thus, Line 1 may also include certain management and oversight activities, such as personnel support, environmental or OSHA compliance management, legal or other direct administrative support costs.

4. The conclusion that an activity may be performed by contract or ISSA also reflects a decision that the work need not be accomplished by military or other uniformed Government personnel. The cost of military labor in a cost comparison, even if the work will remain military if retained in-house, will be determined by the composite rate for uniformed personnel established by the DOD or other applicable Comptroller.

5. Generally, in-house staffing should be expressed in terms of productive work hours. With the establishment of the number of productive work hours required, a conversion to the number of full-time equivalents (FTE) is needed. For full-time and part-time positions, estimate the total hours required by skill and divide by 1,776 annual available hours to determine the number of FTE positions required. For intermittent positions to be expressed in FTE, estimate total hours required by skill and divide by 2,007 annual available hours to determine the number of FTE positions required. The military agency comptroller will establish comparable productive hours for military personnel included in an MEO as military positions. The productive hours exclude annual leave, sick leave, administrative leave, training and other nonproductive hours. The factors result from differences in nonproductive time between types of positions.

6. The following considerations are used to compute personnel costs:

a. *Position Title or Skill*—Identify the job. Example: carpenter, driver, janitor, supervisor, foreman, administrative clerk or department head.

b. *Grade*—Identify the appropriate GS/FWS grade for each position title or skill.

c. *Number of FTE Required*—Identify the FTE required for each grade. Identify the temporary and intermittent employee work years. This is important for later fringe benefit calculations, since intermittent and temporary employees get fewer benefits than full-time or part-time employees.

d. *Annual Salary/Wages*—Pay information can be obtained from the personnel or finance office. Use current pay rates based on the Government-wide representative rate of step 5 for GS and step 4 for FWS employees. Multiply that pay rate by the number of FTE, except for intermittent positions where actual hours are used. As a rule, GS salary is expressed as an annual rate of pay and the FWS salary is expressed as an hourly rate. For positions to be used on a prearranged regularly scheduled tour of duty, this hourly rate is multiplied by 2,087 (the number of hours employees are paid annually).

e. *Other Entitlements*—Include entitlements that will also earn fringe benefits. Work closely with the personnel office to make sure all entitlements are considered and to obtain current factors. Examples include: night differential pay for FWS employees, environmental differential pay and premium pay for Federal civilian fire fighters and law enforcement officers.

f. *Fringe Benefits or FICA*—The following fringe benefit factors are estimated according to the Federal Accounting Standards for Liabilities-Exposure. Multiply the following Governmentwide standard factors by the appropriate basic pay:

(1) Full or part-time permanent Federal civilian employees:

(a) The standard retirement cost factor represents the Federal Government's complete share of the weighted CSRS/FERS retirement cost to the Government, based upon the full dynamic normal cost of the retirement systems; the normal cost of accruing retiree health benefits based on average participation rates; Social Security, and Thrift Savings Plan (TSP) contributions. The current (1996) rate is 23.7 percent of base payroll for all agencies. The comparable retirement cost factors for special class employees are 32.3 percent for air traffic controllers and 37.7 percent for law enforcement and fire protection employees.

(b) The cost factor to be used for Federal employee insurance and health benefits, based on actual cost, is 5.6 percent, plus an additional 1.45 percent for Medicare.

(c) The cost factor to be used for Federal employee miscellaneous fringe benefits (workmen's compensation, bonuses and awards, and unemployment programs) is 1.7 percent.

(2) Intermittent or temporary Federal civilian employees.—The Federal Insurance Contribution Act (FICA) employer cost factor of 7.65 (or the current rate established by law) will be applied to civilian employees not covered by either of the two civilian

civil service retirement systems (normally intermittent and temporary employees). Apply the FICA rate only to wages and salaries subject to the tax; there is an annual salary limitation for FICA tax.

g. *Other Pay*—Include entitlements that do not earn fringe benefits. Some examples are night differential pay for GS employees, overtime, holiday, awards, bonuses, and uniform allowances.

h. *Personnel Cost*—Add Basic Pay, Fringe Benefits or FICA and other pay for all positions and total for both Federal Wage System (FWS) and General Schedule (GS) categories. This figure can now be used as a basis to compute the annual personnel costs for each performance period.

7. Adjustments to annual personnel costs for each performance period are made to reflect anticipated pay increases.

8. All in-house wages, salaries and other costs are adjusted for inflation consistent with the economic assumptions used in the President's most recent Budget, through the end of the first year of performance. Federal wages and salaries for contracts that contain an economic adjustment clause or are subject to the Service Contract Act (SCA) (41 USC 351–357) or the Davis-Bacon Act (DBA) (40 USC 276a—276a–7) are inflated to the end of the first performance period. However, when using the Department of Labor criteria, certain potential contract positions may not be covered under the SCA/DBA provisions; accordingly, the in-house related costs for such positions are escalated through the end of the cost comparison period.

C. Material and supply—Line 2

1. Material and supply costs are incurred in each performance period for goods such as raw materials, parts, subassemblies, components and office supplies. Material costs are calculated only if the materials are used by the activity and will not be provided to the contractor or ISSA provider by the Government.

2. Review the PWS to determine the materials required for in-house performance that will not be furnished to the contractor or ISSA provider. Normally, the contractor or ISSA provider will be expected to provide the supplies and materials necessary to perform the work described in the PWS. The policy regarding contractor or ISSA use of Government provided supplies and materials is set forth in FAR 51.101. Adjust historical material use and cost data to reflect the requirements of the PWS.

3. Determine if materials can be obtained on the open market at less cost than from other Government agencies. Material cost includes material, transport, handling and availability/delay costs. If so, obtain any necessary waivers from the other Government agency(s) to purchase materials on the open market. Include established allowances for normal scrap, spoilage, overruns and defective work. List required material by quantity needed, unit price, escalation for out-years and total cost. A single entry may be made for miscellaneous items such as office supplies.

4. If the furnishing agency establishes and certifies that all costs of acquiring, managing, storing and transporting its material are included in its pricing structure, including overhead, no material mark-up is required. If not, escalation factors based upon the principles and procedures of this Supplement should be developed.

5. Material and supply costs are projected for all performance periods, including adjustments for inflation, consistent with the economic assumption contained in the President's most recent Budget and the rate of transition to the contractor or ISSA provider, as provided in the PWS. Ensure that unit prices are calculated to the end of the first performance period. Future performance period material costs may not be inflated, if the PWS includes an escalation or economic adjustment clause. Such a clause enables a contractor or ISSA provider to be reimbursed for future price increases. The Management Plan shows the computations used to derive the entries for all performance periods.

D. Other specifically attributable—Line 3

1. *Overview.*—Personnel and material costs are normally the primary sources of Government costs. The remaining elements of competitive cost are also attributable to the activity. When requirements differ by period due to changes in the PWS or the Transition Plan, additional adjustments will be necessary. Ensure that such adjustments are made before applying inflation factors, if appropriate. Costs that would be the same regardless of the eventual decision, should be identified for each cost element.

Elements of Cost	Paragraph
Depreciation	2D2
Cost of Capital	2D3
Rent	2D4
Maintenance and Repair	2D5
Utilities	2D6
Insurance	2D7
Travel	2D8
MEO Subcontracts	2D9
Other Costs	2D10

2. *Depreciation.*—

a. Depreciation represents the cost of ownership and the consumption of an asset's useful life.

b. Unless an asset is fully depreciated, the Federal Accounting Standards for Property, Plant and Equipment will be used. If an applicable asset is fully depreciated, is to be used by the MEO during the performance period and is not to be provided to the contractor or ISSA provider, extend the life of the asset through the end of the performance period. The cost of depreciation is then recalculated using the extended life and original acquisition cost.

c. Individual assets costing less than $5,000 are considered minor items and will not be depreciated, but will be added to *other costs* (see paragraph D.10). The joint use of minor items need not be prorated to the function under study. Assets costing more than $5,000 are major items for depreciation.

d. If an in-house activity shares an asset with another activity not under review or cost comparison and that asset will not be provided for use by the contractor or ISSA, allocate depreciation to the inhouse estimate on the basis of use or other appropriate methodology. If the activity is converted to contract or ISSA performance, the asset's life and utilization rate may change.

e. To find the cost of depreciation added to each option year, subtract the residual value from the total of the acquisition cost plus any capital improvements and, then, divide by the estimated useful life of the asset. Include the resultant annual depreciation for each year of the cost comparison. If the asset was acquired through transfer, seizure or forfeiture, an industry specific standard or engineering appraisal may be used to establish the market or ''acquisition'' value of the asset at transfer.

f. Facilities are generally categorized as permanent, semi-permanent or temporary and the useful life will be standardized for the entire grouping. The useful life expectancies listed below may be used by type of facility. If useful life has been exceeded, obtain an engineering projection of anticipated remaining useful life. These costs will be prorated to the activity under study by a unit of measure that varies directly with consumption (e.g., floor space, type of facility, number of telephones). Estimates of expenses to be incurred for the first year of performance should be based on current experience, appropriately adjusted for anticipated requirements. Engineering estimates should be used when historical data are not available. All estimates should be appropriately documented with supporting detail.

Facility Category	Useful Life
Permanent (P)	75 years
Semi-Permanent (S)	50 years
Temporary (T)	25 years

3. *Cost of Capital.*—

a. The annual cost of capital is added to the depreciation cost of any asset costing more than $5,000 acquired by the Government if: (1) not provided for the contractor's or ISSA provider's use, (2) is purchased less than two years prior to the cost comparison date or (3) is scheduled for purchase within the performance period.

b. The cost of capital is defined as an imputed charge on the Government's investment in capital assets necessary for the activity to provide the product or service.

c. To estimate the annual cost of capital, it is necessary to identify the total depreciable acquisition cost of new assets or, if acquired by transfer, forfeiture or seizure, the market value of the assets. The total cost results from the value of the asset, transportation costs (if not already included in the purchase price) and any installation costs to place the asset in operation. The cost of capital will be computed by applying the nominal rate provided by OMB Circular A–94 to the determined total cost of the asset.

4. *Rent.*—Rent is incurred for the use, operation and maintenance of land, building space, plant and machinery, etc., by the activity under study. Compute only those costs that are associated with the MEO, on an allocated basis, not provided to the contractor or ISSA provider.

5. *Maintenance and Repair.*—This cost is incurred to keep buildings and equipment in normal operating condition. It does not include capital improvements that add value to an asset and are accounted for under depreciation. Allocate maintenance and repair costs for those assets that will not be furnished to the contractor or ISSA provider but are: (1) needed for MEO performance and (2) are not covered by rental fees.

6. *Utilities.*—This category includes charges for fuel, electricity, telephone, water and sewage services, etc., that will not be furnished to the contractor or ISSA provider by the Government but are needed for inhouse performance of the activity. The amount of these costs applicable to the activity under study will be determined either on a metered or allocated basis of consumption.

7. *Insurance.*—

a. Operation of any Government activity involves risks and potential costs from property losses (fire, flood, accident, etc.) and liability claims. These risks are normally covered by insurance included in any commercial cost estimate.

b. To the extent assets are not provided to the contractor or to the extent that property losses may be assessed against a contractor who uses Government space, facilities or equipment, in-house casualty premiums must be computed. Generally, the Government's casualty premium equivalent cost will be computed by multiplying .005 times the net book value of Government's equipment and/or facilities, plus the average value of material and supplies.

c. Insurance to be computed on assets will depend on the requirements of the Performance Work Statement (PWS). If the contractor or ISSA provides special casualty insurance on all Government furnished assets, compute insurance for *all* assets used by the activity under study. If the contract does not require the contractor to furnish special casualty insurance, e.g., the Government will self indemnify, compute casualty insurance on *only* those assets to be used by the activity under study that would not be provided to the contractor or ISSA provider, as appropriate.

d. Personnel liability losses will be computed by multiplying .007 times the Government's total personnel-related costs on Line 1. Additional liabilities assigned to the contractor or ISSA provider by the PWS that are not associated with personnel will also be computed by applying the standard .007 factor to the estimated liability ceiling identified in the PWS and included in the in-house cost estimate.

8. *Travel.*—This category covers the expected cost of in-house travel that would not continue in the event of contract or ISSA performance. These costs should be readily available from budgeted amounts of per diem and transportation cost for the activity under study.

9. *MEO Subcontract Costs.*—Solicitations that include work currently performed by contract and by Federal employees, should include the MEO cost of labor for the Government's administration and inspection of the continued support contracts on Line 1. The cost of the support contract itself, including the cost of related Government furnished equipment and facilities not provided to the contractor or ISSA, should be entered on Line 3. Escalate to each performance period as appropriate. Support contract costs should also be adjusted (downward) to offset for potential Federal income tax revenue to the Government. This is done by applying the appropriate tax rates in Appendix 4 of this supplement.

10. *Other Costs.*—

a. Other Costs is a general category for specifically attributable costs that do not properly fit into one of the other cost elements, but would change in the event of contract or ISSA performance. Some examples are purchased services packaging and crating (if not already a part of material and supplies); transportation costs; and royalties. Ensure these costs are not also covered in Line 4 overhead costs.

b. Include the cost of *minor items* that are not immediately consumed by the activity and not provided to the contractor or ISSA provider. This includes items such as overhead projectors, office equipment, tools, chairs, desks, cabinets, etc. Estimate the cost of minor items for each performance period by allocating 10 percent of the total estimated replacement cost of all such items. Should the supply source markup increase the item's cost to more than $5,000, it will still be considered a minor item.

E. Overhead—Line 4

1. While direct labor, supervision and material costs are prorated, as appropriate, to Lines 1 and 2, overhead expenses, which include general management and administrative expenses, are entered on Line 4.

2. Line 4 includes two major categories of cost. The first is *operations overhead* and is defined as those costs that are not 100 percent attributable to the activity under study, but are generally associated with the recurring management or support of the activity. The second is *general and administrative overhead* and includes salaries, equipment, space and other activities related to headquarters management, accounting, personnel, legal support, data processing management and similar common services performed outside the activity, but in support of the activity. These costs are affected by the conversion of work to or from in-house, contract or ISSA.

3. For each year of the cost comparison, Line 4 is calculated by multiplying Line 1, including fringe, by 12 percent (.12) and entering the total on Line 4. If military personnel are included in Line 1, apply the 12 percent factor to civilian MEO Line 1 costs only. The composite military rate should include all military related overhead.

F. Additional—Line 5

1. This cost element includes costs not otherwise properly classified on Lines 1 through 4. This cost category should reflect those additional costs result-

ing from unusual or special circumstances that may be encountered in particular comparisons. Examples include office and plant rearrangements, transport, employee recruitment, training, relocation, and other expenses.

2. Amounts entered on Line 5 should be supported by a definition of the type of cost reported, a justification for its inclusion in the cost comparison, an explanation of the underlying assumptions, and methods of computation.

3. The additional costs of an expansion, new requirement or conversion from contract or ISSA to in-house performance, which are added to the in-house costs, should be made on Line 5 in consultation with engineering, production, management and contracting personnel.

a. New investment by the Government in facilities and equipment should not be included as one-time costs. The costs incurred in acquiring facilities or equipment and installing the equipment should be included in the capitalized cost of in-house performance.

b. Government facilities and equipment will not normally be expanded to accommodate new or expanded work if cost-effective contract or ISSA facilities and equipment are available. Likewise, agency ownership shall not preclude a contractor or an ISSA provider from competing for the service. If in-house operation is dependent upon the Government's purchase or construction of new facilities or other major capital asset purchases, the cost comparison and conversion to in-house performance will be delayed until the approval to purchase or construct such items is obtained, subject to the cost comparison.

G. Total cost—in–house performance—Line 6

Enter the sum of Lines 1 through 5 on Line 6.

Chapter 3—Developing the Cost of Contract Performance

A. General

This Chapter provides guidance for the determination of the cost to the Government of obtaining a commercial product or service by contract or inter-service support agreement (ISSA). It includes a determination of not only the amount to be paid to the contractor/provider (price) but also a determination of the additional costs to the taxpayer that would be incurred in the event of a conversion.

B. Contract price—Line 7

1. *Overview.*—The contract or ISSA price reflects the cost to perform the requirements of the PWS as presented by the offeror selected to compete with the in-house work force. The solicitation for bids or proposals will notify the offerors that a comparison will be made between the cost of contracting, the cost of the in-house performance and, if appropriate, the cost of performance through an ISSA. A contract may or may not be awarded as a result.

2. *Contract Types.*—

a. In determining the amount to be recorded as the contract price, consider the contract type. The following guidance is provided in this regard.

b. In the case of a sealed bid, firm fixed price contract, the price of the low responsible, responsive offeror will be entered. If a firm fixed price contract is to be negotiated, the negotiated price will be entered.

c. If a cost-reimbursement or cost-sharing type contract is proposed, enter the low negotiated estimate.

d. If a contract with an incentive or award fee is proposed, enter 65 percent of the potential maximum incentive or award fee plus the contract costs of the most advantageous offer to the Government.

e. If a time and material or labor-hour contract is proposed, enter the estimated total cost of performance. Alternatively, comparable rates can be developed for the Government cost estimate, developed in accordance with this Supplement, and the comparison can be made on the basis of rates, rather than costs.

3. *Tax Exempt Organizations.*—

a. If the apparent low contract offeror is a tax-exempt organization, the tax-exempt's contract price is adjusted by an amount equal to the estimated Federal income taxes that the lowest non tax-exempt offeror would pay. This adjustment is necessary to determine which offeror has the lowest overall cost to the Government.

b. Calculate the Federal tax adjustment by using the procedures in paragraph G of this Chapter. Add the Federal taxes calculated to the tax-exempt's offer for comparison with other non tax-exempt offerors.

c. Compare the tax-exempt's adjusted offer to the low non tax-exempt offer. The lowest cost offeror, after this comparison, will then compete against the Government's in-house cost estimate and any ISSA proposals. If the tax-exempt's adjusted offer is lower than the low non tax-exempt offer, enter the *unadjusted* tax-exempt's offer on Line 7.

4. *Procurement Preference Eligible Organizations.*—

a. If a preference eligible contractor meets the requirements of an unrestricted solicitation, and is an otherwise fully responsive offeror, the preference eligible may compete with non-preference eligible offerors. This is accomplished by adding 10 percent of each non-preference eligible's offer to their offer for initial comparison purposes only. The lowest offer, after adjustment, will be chosen to compete with the Government's in-house cost estimate and ISSA offers.

b. If the preference eligible's offer is lower than all other commercial sources—after adjustments—enter the preference eligible's price on Line 7. If the non-preference eligible's adjusted price is lower, enter the *unadjusted* non-preference eligible's price on Line 7.

C. Contract administration—Line 8

1. Contract administration costs are incurred in administering a contract or ISSA. It includes the cost of reviewing compliance with the terms of the contract, processing payments, negotiating change orders, and monitoring the closeout of contract operations. It does not include inspection and other administrative requirements that would be common to contract and Government performance to assure acceptable performance.

2. The contract administration costs entered on Line 8 are limited to the personnel shown at Table 3–1.

3. Table 3–1 represents the estimated additional cost to administer a contract or ISSA over and above the cost to administer the same work performed by in-house employees.

4. Contract administration organization and grade structure should be certified as being in compliance with all applicable personnel regulations.

Table 3–1. Contract Administration Factors

MEO Staffing	Contract Administration FTE
10 or less	.5
11–20	1
21–50	2
51–75	3
76–100	4
101–120	5
121–150	6
151–200	7
201–250	8
251–300	9
301–350	10
351–450	11
451 and above	2.5 percent of in-house MEO staffing

D. Additional—Line 9

1. This cost element includes any additional costs to the Government such as transportation or purchased services resulting from unusual or special circumstances that may be encountered in particular cost comparisons.

2. The supporting documentation for additional costs should describe the nature of the cost item and indicate the reason the additional cost will not be incurred if the activity is performed with the agency's in-house resources.

3. The costs entered on Line 9 should be supported by a definition of the type of cost reported, justification for inclusion, methods of computation, and, if applicable, a detailed listing of the cost components.

4. When an in-house activity is terminated in favor of contract or ISSA performance and the agency elects to hold MEO equipment and facilities on standby, solely to maintain performance capability, the standby costs are not to be charged to the cost of the contract.

E. One–time Conversion—Line 10

1. *Overview*—When the Government converts to or from in-house, contract or ISSA performance, there are usually one-time costs incurred as a result of the conversion.

2. *Material Related Cost—*

a. A conversion may result in certain items of Government material or equipment, that would otherwise have been used by the in-house MEO, becoming excess and available for transfer to another in-house activity or to the contractor.

b. It should be possible to transfer the material to the contract or ISSA offeror. In this case, it may be appropriate to conduct a special joint physical inventory and include the Government's cost of conducting the joint inventory (costs may be shared with the winning bidder) on Line 10.

c. If the transfer of existing materials to the contract or ISSA offeror is feasible, and the agency elects not to provide the material, no charge for conducting the inventory is permitted.

3. *Labor-Related Costs—*

a. A conversion will also normally result in certain one-time labor-related expenses. These may include health benefit costs, severance pay, homeowner assistance, relocation and retraining expenses and initial contractor security clearance requirements.

b. Estimated severance pay is calculated at four percent of the annual basic pay (performance period 1 only) entered on Line 1, without fringe benefits.

c. If there is a requirement for the commercial source to have access to classified information or other security clearances under existing agency directives, only those costs that would be necessitated by the conversion may be calculated. Recurring requirements necessitated by in-house attrition or by employees that may be hired under the Right-of-First-Refusal will not be included.

4. *Other Costs.*—A conversion to contract or ISSA performance may require an agency to take certain actions that would not be necessary if the activity were continued in-house. Agencies have an obligation to mitigate these costs and justify why such costs are necessary. For example, it may not be possible to terminate a rent or lease agreement without a penalty fee, or it may be necessary to move materials that are not associated with the activity under study to another location in order to facilitate conversion or the contractor's or ISSA's use of a facility. Such termination, penalty or facilitation costs are also costs caused by the conversion.

5. *One-Time Cost Computation.*—Supporting documentation should clearly state the type of cost anticipated, justification for inclusion or exclusion and methods of computation.

F. Gain from disposal/transfer of assets—Line 11

1. As the Government develops its MEO, certain assets may be found to be no longer needed. These assets may be disposed of or transferred without consideration in a cost comparison. The cost comparison is concerned with comparing the Government's MEO with that of the best commercial or ISSA provider. Therefore, only those assets that are to be used by the Government's MEO and not made available to the contractor or ISSA are considered on Line 11.

2. The Government should not dispose of or transfer MEO assets unless there is an economic advantage to the Government to do so. If the cost of transfer exceeds the net book value of the asset, such that there is a net loss, no such losses are assessed against the contractor or ISSA. Management has made a decision not to make such assets available to the contractor or ISSA irrespective of the economic costs related to such a decision.

3. The net gain generated to the Government as a result of a conversion to a contract or ISSA and a decision not to provide certain MEO assets to the contractor or ISSA should equate to the net book value of the asset less any costs incurred to remove the asset.

G. Federal income tax—Line 12

1. When developing the Government's cost of contract performance, the potential Federal income tax revenue should be considered. Since contract performance would provide the contractor with income subject to tax, an estimated amount of such taxes is an appropriate deduction from the net cost to the Government, unless the prospective contractor is a tax-exempt organization.

2. To simplify the tax computation, Appendix 4, prepared by the Internal Revenue Service, provides, by types of industry, appropriate tax rates in relation to business receipts. The industry groupings conform to the Enterprise Standard Industrial Classification issued by the Department of Commerce. To determine the amount of estimated Federal income tax, the contract price (Line 7 of the GCCF) for each performance period will be multiplied by the applicable tax rate. The estimated amount of Federal income tax will be entered on Line 12 as a deduction, i.e. negative, reducing the cost of contracting.

H. Total cost—contract or ISSA performance—Line 13

Add Lines 7, 8, 9 and 10. If there is a number in parenthesis, i.e., a deduction, in Line 11, add to Line 12 and subtract this total from the total of Lines 7 through 10 and enter the difference on Line 13.

Chapter 4—Calculating the Cost Comparison Decision

A. Conversion differential—Line 14

1. A minimum cost differential of the lesser of; (1) 10 percent of personnel costs (line 1) or (2) $10 million over the performance period, has been established that must be met before converting to or from in-house, contract or interservice support agreement (ISSA) performance. The minimum differential is established to ensure that the Government will not convert for marginal estimated savings.

2. Whenever a cost comparison involves a mix of existing in-house, contract, new or expanded requirements, or assumes full or partial conversions to in-house performance, each portion is addressed individually and the total minimum differential is calculated accordingly.

B. Adjusted total in-house cost—Line 15

If the cost comparison is being conducted to determine if an activity should be converted from contract or ISSA performance to in-house operation, the conversion differential as calculated above (Line 14) is added to the In-house performance cost estimate (Line 6, Total Column only) and the sum is entered under Adjusted Total Cost of In-House Performance (Line 15). The amount in the Total Column for Line 13 is replicated on Line 16.

C. Adjusted total contract or ISSA cost—Line 16

If the cost comparison is being conducted to determine if an activity should be converted from in-house operation to contract or ISSA performance, the conversion differential as calculated above (Line 14) is added to the Contract performance cost estimate (Line 13, Total Column only) and the sum is entered under Adjusted Total Cost of Contract or ISSA Performance(Line 16). The amount in the Total Column for Line 6 is replicated on Line 15.

D. The cost comparison decision—Lines 17 and 18

Subtract Line 15 from Line 16 and enter the result on Line 17. A positive amount on Line 17 supports a decision to perform the activity with in-house resources. A negative amount on Line 17 supports a decision to accomplish the work with contract resources. Indicate in the appropriate block on Line 18 the decision supported by Line 17.

ILLUSTRATION II–1

THE GENERIC A–76 COST COMPARISON FORM (GCCF)

IN-HOUSE VS. CONTRACT OR ISSA PERFORMANCE

	Performance Periods					
	1st	2nd	3rd	Add'l	Total	Reference
IN-HOUSE PERFORMANCE						
1. Personnel						
2. Material and Supply						
3. Other Specifically Attributable						
4. Overhead						
5. Additional						
6. Total In-house						
CONTRACT OR ISSA PERFORMANCE						
7. Contract/ISSA Price						
8. Contract Administration						
9. Additional						
10. One-time Conversion						
11. Gain on Assets	( )	( )	( )	( )	( )	
12. Federal Income Taxes	( )	( )	( )	( )	( )	
13. Total Contract or ISSA						
DECISION						
14. Minimum Conversion Differential						
15. Adjusted Total Cost of In-house Performance						
16. Adjusted Total Cost of Contract or ISSA Performance						
17. Decision—Line 16 minum Line 15						
18. Cost Comparison Decision: Accomplish Work						
In-House (+)						
Contract or ISSA (–)						

THE GENERIC A–76 COST COMPARISON FORM (GCCF)

19. In-House MEO Certified By: _________________________ Date: _______

____

Office and Title

"I certify that, to the best of my knowledge and belief, the in-house organization reflected in this cost comparison is the most efficient and cost effective organization that is fully capable of performing the scope of work and tasks required by the Performance Work Statement. I further certify that I have obtained from the appropriate authority concurrence that the organizational structure, as proposed, can and will be fully implemented — subject to this cost comparison, in accordance with all applicable Federal regulations.

20. In-House Cost Estimate Prepared By: _______________________ Date: ________

21. Independent Reviewer: ________________________ Date: ________

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Office and Title

"I certify that I have reviewed the Performance Work Statement, Management Plan, In-house cost estimates and supporting documentation available prior to bid opening and, to the best of my knowledge and ability, have determined that: (1) the ability of the in-house MEO to perform the work contained in the Performance Work Statement at the estimated costs included in this cost comparison is reasonably established and, (2) that all costs entered on the cost comparison have been prepared in accordance with the requirements of Circular A–76 and its Supplement.

22. Cost Comparison Completed By: ________________________ Date: ________

23. Contracting Officer: ________________________ Date: ________

24. Tentative Cost Comparison

    Decision Announced By: ________________________ Date: ________

25. Appeal Authority (if applicable): ________________________ Date: ________

Chapter 5—Streamlined Cost Comparisons for Activities with 65 FTE or Less.

A. General

1. This chapter provides procedures that may be used when the Government determines that a simplified cost comparison will serve the equity and fairness purposes of Circular A–76 for conversion to or from in-house, contract or interagency support agreement (ISSA). The methodology is limited to activities that meet the following criteria:

a. possible conversion to or from in-house, contract or ISSA performance involving 65 FTE or less;

b. activities that will compete largely on a labor and material cost basis such as, but not limited to, custodial, grounds, guard, refuse, pest control, warehousing and maintenance services;

c. activities for which significant capital asset purchases are not required or for which all equipment requirements will be Government Furnished/Contractor Operated (GOCO), and

d. activities that are commonly contracted by the Government and/or private sector, e.g., there are not less than four comparable agency contracts of the same general type and scope and the range of the existing service contract costs are reasonably grouped.

2. In no case, shall any commercial activity involving 66 or more FTE be modified, reorganized, divided or in any way changed for the purpose of circumventing the requirements of this section or other procedures of this Supplement.

3. A Streamlined Cost Comparison Form (SCCF) is provided at Illustration II–2.

B. Procedure

1. The streamlined A–76 cost comparison process assumes that the activity being considered is regularly performed by contract. Thus, it assumes that existing fixed price contracts can be used, with only minor modification, to define the scope of the competition and to avoid the need for the development of a new or original Performance Work Statement (PWS) or a formal solicitation.

2. The employee participation and notification provisions of Part I apply.

3. The Government will base its in-house costs on the current organization.

4. The Government's in-house Labor and Material costs (Lines 1 and 2 of the Generic A–76 Cost Comparison Form) will be calculated in accordance with Chapter 2 of this Part. Overhead costs will be calculated as provided by Chapter 2 of this Part for Line 4. Any contract support costs normally included in Line 5 of the GCCF will be calculated. No other in-house costs will be calculated. The provisions for an Independent Review apply. Upon acceptance by the agency's A–76 IRO, the in-house cost estimate will be sealed and submitted to the contracting officer.

5. Upon receipt of the in-house cost estimate, the contracting officer will develop a range of contract cost estimates, based upon not less than four comparable service contracts or ISSA offers. Adjustments for differences in scope may be necessary. The contracting officer is not required to issue a solicitation for bids from the private sector. If, however, the contracting officer finds that four comparable contracts or ISSA offers are not available, the contracting officer may issue a solicitation for bids and the agency may conduct a cost comparison as otherwise provided by this Supplement.

6. At cost comparison, the in-house cost estimate will be compared with ISSA offers and the range of estimated contract costs developed by the contracting officer. The range of estimated contract costs will then be adjusted for the cost of contract administration (limited to Table 3–1) and Federal tax impacts. In calculating the Adjusted Total Costs, the minimum conversion differential shall be added to the total cost of contract or ISSA performance if the cost comparison is being conducted to determine if an activity should be converted from in-house operation to contract or ISSA performance. If the comparison is being conducted to determine if an activity should be converted from contract or ISSA performance to in-house operation, the differential is added to the total cost of in-house performance.

7. If the Government's Adjusted Total In-house Cost estimate is greater than the range of Adjusted Total Contract or ISSA Cost estimates, the contracting officer will announce a tentative decision to contract or enter into an ISSA. Upon notification of adversely affected Federal employees and publication of this tentative decision in the *Commerce Business Daily*, the A–76 Administrative Appeal process outlined in this Supplement will be initiated. With the A–76 Administrative Appeal Authority's confirmation of all costs entered on the SCCF and certification of the reasonableness of the contract and ISSA pricing adjustments made by the contracting officer, the contracting officer will solicit for award to contract or ISSA performance. The Right-of-First-Refusal will

be offered to employees adversely affected by the award.

8. If the Government's Adjusted Total In-house Cost estimate is below or within the range of Adjusted Total Contract or ISSA Cost estimates, the contracting officer will announce a tentative decision that the activity will be performed in-house. Again, upon notification of Federal employees and publication of the tentative decision in the *Commerce Business Daily*, the A–76 Administrative Appeal process will be initiated.

9. Activities to be performed or retained in-house as a result of a streamlined cost comparison should be submitted to Post-MEO Performance Review, in compliance with this Supplement. This recognizes that, for retained activities, the existing organization is assumed to be the MEO and no management plan is required.

ILLUSTRATION II–2

THE STREAMLINED A–76 COST COMPARISON FORM (SCCF)
(LIMITED TO 65 FTE OR LESS)

IN-HOUSE VS. CONTRACT OR ISSA PERFORMANCE

	Performance Periods					
	1st	2nd	3rd	Add'l	Total	Reference
IN-HOUSE PERFORMANCE						
1. Personnel						
2. Material						
3. Overhead						
4. Other						
5. Total In-house						
CONTRACT OR ISSA PERFORMANCE						
6. Contract and ISSA Price Range						
7. Contract Administration						
8. Federal Taxes (–)						
9. Total Contract and ISSA Price Range						
DECISION						
10. Minimum Conversion Differential						
11. Adjusted Total Cost of In-house Performance						
12. Adjusted Total Cost of Contract or ISSA Performance						
13. Cost Comparison (Line 12 minus Line 11)						
14. Cost Comparison Decision:						
Perform In-House						
Convert to Contract or ISSA						

THE STREAMLINED A–76 COST COMPARISON FORM (SCCF)
(LIMITED TO 65 FTE OR LESS)

15. In-House Cost Estimate Prepared By: ______________________ Date: _______

16. Independent Reviewer: ________________________________ Date: _______

____
Office and Title

"I certify that I have reviewed the proposed contract, in-house and ISSA cost estimates and contract prices and find them to be reasonable and calculated in accordance with the principles and procedures of Circular A–76 and its Supplement.

17. Cost Comparison Completed By: ________________________ Date: ________

18. Contracting Officer: ________________________ Date: ________

19. Tentative Cost Comparison
Decision Announced By: ________________________ Date: ________

20. Appeal Authority (if applicable): ________________________ Date: ________